Example I--Cost of Funds Model

Amount of Deposits (ICDs) Sold	$1,000,000	100%
Option Premium Quoted by Hedge Provider for 100% Participation	$198,000	19.86%
Present value of $1,000,000 at maturity	$821,137	82.11%
Free Cash available for Premium and Servicing fee	$178,863	17.86%
Participation rate that can be offered to customers		80%
Bank Institution Cost =		
Option Premium at 80% Participation	$158,863	15.89%
Service Fee	$20,000	2.00%
Amount remaining in bank for loan/investment	$821,137	82.11%

FIGURE 1

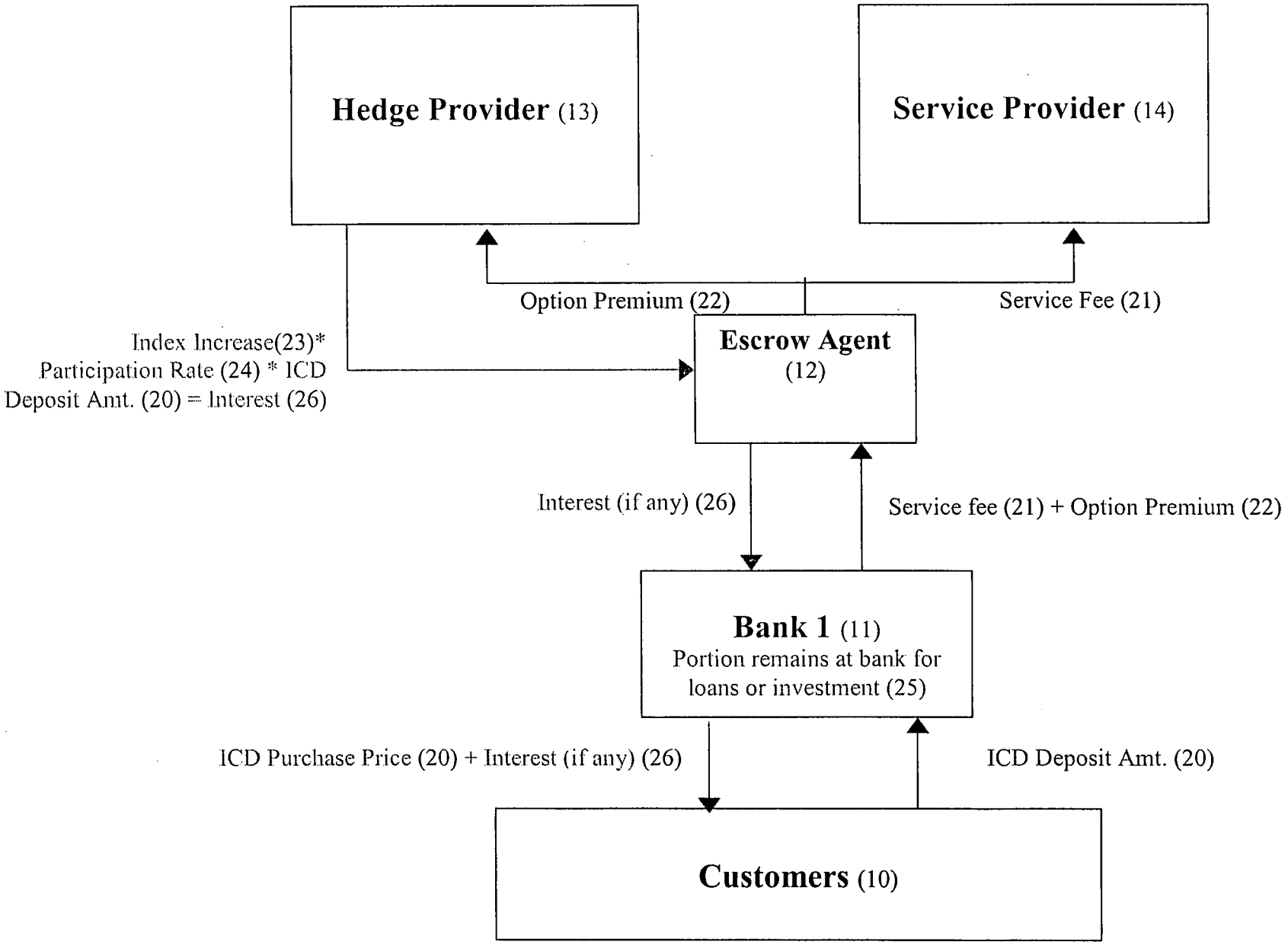
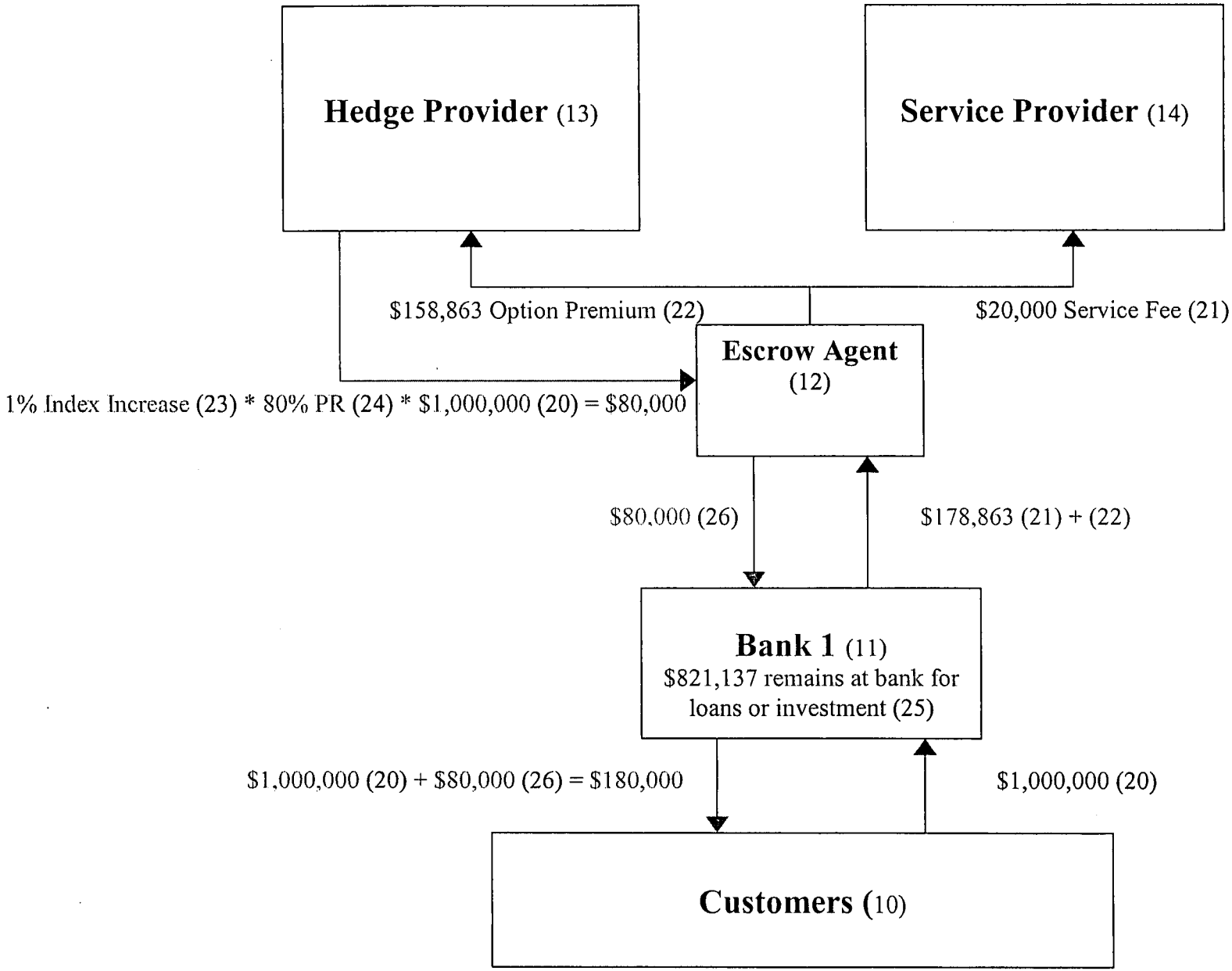

Hedge Provider (13)
Service Provider (14)
Option Premium (22)
Service Fee (21)
Index Increase(23)* Participation Rate (24) * ICD Deposit Amt. (20) = Interest (26)
Escrow Agent (12)
Interest (if any) (26)
Service fee (21) + Option Premium (22)
Bank 1 (11)
Portion remains at bank for loans or investment (25)
ICD Purchase Price (20) + Interest (if any) (26)
ICD Deposit Amt. (20)
Customers (10)

FIGURE 2


Hedge Provider (13)
Service Provider (14)
$158,863 Option Premium (22)
$20,000 Service Fee (21)
Escrow Agent (12)
1% Index Increase (23) * 80% PR (24) * $1,000,000 (20) = $80,000
$80,000 (26)
$178,863 (21) + (22)
Bank 1 (11)
$821,137 remains at bank for loans or investment (25)
$1,000,000 (20) + $80,000 (26) = $180,000
$1,000,000 (20)
Customers (10)